

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Letcher County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances increased by \$ 586,339 from the beginning of the year, resulting in a cash surplus of \$2,752,854 as of June 30, 2002. Of this cash surplus, \$1,423,589 is reserved for the completion of Local Government Economic Development grant capital projects. Revenue increased by \$1,427,794 from the prior year and disbursements increased by \$231,263. The increase in revenue is attributed primarily to a new nonrecurring Local Government Economic Development grant received during the current fiscal year. The increase in disbursements is the net effect of an increase in grants expenditures and a decrease in loan payments.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2002, was \$4,277,000. Future collections of \$7,145,836 are needed over the next 25 years to pay all bonded debt principal and interest.

#### **Report Comments:**

- The Fiscal Court Should Review The Administrative Code Annually
- The Fiscal Court Minutes Should Be Filed In A Timely Manner
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Review Payroll Related Reports
- The Fiscal Court Should Maintain Correct Records

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Carroll A. Smith, Letcher County Judge/Executive

Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Letcher County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Letcher County as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2003, on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Letcher County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Fiscal Court Should Review The Administrative Code Annually
- The Fiscal Court Minutes Should Be Filed In A Timely Manner
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Review Payroll Related Reports
- The Fiscal Court Should Maintain Correct Records

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 25, 2003

LETCHER COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Carroll Smith	County Judge/Executive
Nolane Banks	Magistrate
Mack Fultz	Magistrate
Wayne Fleming	Magistrate
Homer Rose, Jr.	Magistrate
Robert Lewis	Magistrate

**Other Elected Officials:**

Harold Bolling	County Attorney
Gary Cornett	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Steve Banks	Sheriff
Randy Hall	Property Valuation Administrator
Delbert Anderson	Coroner

**Appointed Personnel:**

Phillip Hampton	County Treasurer
Robin Kiser	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

LETCHER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 2,497,591</u>	<u>\$ 10,877</u>	<u>\$ 212,109</u>
Total Assets	<u>\$ 2,497,591</u>	<u>\$ 10,877</u>	<u>\$ 212,109</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Bond Payments	<u>\$</u>	<u>\$</u>	<u>\$ 4,064,891</u>
Total Other Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,064,891</u>
Total Assets and Other Resources	<u><u>\$ 2,497,591</u></u>	<u><u>\$ 10,877</u></u>	<u><u>\$ 4,277,000</u></u>

LETCHER COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only) Reporting Entity</u>
<u>Enterprise</u>	
<u>\$ 32,956</u>	<u>\$ 2,753,533</u>
<u>\$ 32,956</u>	<u>\$ 2,753,533</u>
<u>\$</u>	<u>\$ 4,064,891</u>
<u>\$ 0</u>	<u>\$ 4,064,891</u>
<u><u>\$ 32,956</u></u>	<u><u>\$ 6,818,424</u></u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Bonds:			
Series 1994 (Note 5A)	\$	\$	\$ 16,000
Series 1999 (Note 5B)			4,261,000
Payroll Liabilities	679		
Total Liabilities	\$ 679	\$ 0	\$ 4,277,000
<u>Equity</u>			
Retained Earnings:			
Unrestricted	\$	\$	\$
Fund Balances:			
Reserved	1,423,589		
Unreserved	1,073,323	10,877	
Total Equity	\$ 2,496,912	\$ 10,877	\$ 0
Total Liabilities and Equity	\$ 2,497,591	\$ 10,877	\$ 4,277,000

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 16,000
	4,261,000
	<u>679</u>
<u>\$ 0</u>	<u>\$ 4,277,679</u>
\$ 32,956	\$ 32,956
	1,423,589
	<u>1,084,200</u>
<u>\$ 32,956</u>	<u>\$ 2,540,745</u>
<u>\$ 32,956</u>	<u>\$ 6,818,424</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE

LETCHER COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2002

	Totals (Memorandum Only)	General Fund Type		
		General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,209,388	\$ 3,603,321	\$ 1,183,978	\$ 345,223
Other Financing Sources:				
Transfers In	1,450,577	400,000	400,000	183,853
Total Cash Receipts	<u>\$ 8,659,965</u>	<u>\$ 4,003,321</u>	<u>\$ 1,583,978</u>	<u>\$ 529,076</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,315,435	\$ 2,837,059	\$ 1,029,984	\$ 535,584
Other Financing Uses:				
Schedule of Other Expenditures	2			
Transfers Out	1,450,577	711,724	400,000	
Bonds:				
Principal Paid	92,000			
Interest Paid	207,228			
Total Cash Disbursements	<u>\$ 8,065,242</u>	<u>\$ 3,548,783</u>	<u>\$ 1,429,984</u>	<u>\$ 535,584</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 594,723	\$ 454,538	\$ 153,994	\$ (6,508)
Cash Balance - July 1, 2001	<u>2,125,175</u>	<u>117,637</u>	<u>206,632</u>	<u>14,065</u>
Cash Balance - June 30, 2002	<u>\$ 2,719,898</u>	<u>\$ 572,175</u>	<u>\$ 360,626</u>	<u>\$ 7,557</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

General Fund Type			Debt Service Fund Type	
Local Government Economic Assistance Fund	Special Revenue Fund Type		Public Properties Corporation 1964 Bond Issue	Public Properties Corporation 1999 Bond Issue
	Forestry Fund	Senior Citizens Fund		
\$ 1,788,752	\$ 3,419	\$ 153,561	\$ 7	\$ 131,127
	330	265,000	8,840	192,554
<u>\$ 1,788,752</u>	<u>\$ 3,749</u>	<u>\$ 418,561</u>	<u>\$ 8,847</u>	<u>\$ 323,681</u>
\$ 1,490,574	\$ 3,642	\$ 418,592	\$	\$
338,853	2			
			8,000	84,000
			840	206,388
<u>\$ 1,829,427</u>	<u>\$ 3,642</u>	<u>\$ 418,592</u>	<u>\$ 8,842</u>	<u>\$ 290,388</u>
\$ (40,675)	\$ 107	\$ (31)	\$ 5	\$ 33,293
1,597,229		10,801	56	178,755
<u>\$ 1,556,554</u>	<u>\$ 107</u>	<u>\$ 10,770</u>	<u>\$ 61</u>	<u>\$ 212,048</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE



LETCHER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
<u>Cash Receipts</u>	
Receipts - Jail Canteen	\$ 82,692
Total Cash Receipts	<u>\$ 82,692</u>
<u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 91,076
Total Cash Disbursements	<u>\$ 91,076</u>
Deficit of Cash Receipts Under Cash Disbursements	\$ (8,384)
Cash Balance - July 1, 2001	<u>\$ 41,340</u>
Cash Balance - June 30, 2002	<u><u>\$ 32,956</u></u>

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE



LETCHER COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	82,692
Payments to Suppliers	<u>(91,076)</u>
Net Cash Used By Operating Activities	<u>(8,384)</u>
Net Decrease in Cash	(8,384)
Cash and Cash Equivalents - July 1, 2001	<u>41,340</u>
Cash and Cash Equivalents - June 30, 2002	<u><u>\$ 32,956</u></u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation - 1964 and 1999 Bond Issues as part of the reporting entity.

The Public Properties Corporation - 1964 and 1999 Bond Issues (the Corporation) is an entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Letcher County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Letcher County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Letcher County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Forestry Fund and the Senior Citizens Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation-1964 Bond Issue and the Public Properties Corporation - 1999 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Letcher County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Letcher County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Letcher County Public Properties Corporation Fund - 1964 Bond Issue and the Letcher County Public Properties Corporation Fund - 1999 Bond Issue because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Letcher County Fiscal Court: Letcher County Industrial Development Authority, Letcher County Water and Sewer District, Letcher County Library District, and Letcher County Extension District.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 31, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Local Government Economic Assistance Fund

The ending cash balance of Local Government Economic Assistance Fund was \$1,556,554 as of June 30, 2002. Of this amount, \$1,423,589 was reserved for the completion of capital projects. The Department for Local Government authorized certain capital construction projects for local administration from the coal severance tax project plan of House Bill 502. These projects were not completed at fiscal year end and funds must be reserved for their completion. The beginning grant balance was \$1,570,084. During fiscal year ended June 30, 2002, the county deposited Local Government Economic Development Fund grant receipts totaling \$150,900 into the Local Government Economic Assistance Fund. Of this amount, \$297,395 was expended leaving a remaining balance of \$1,423,589.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt

A. 1964 Bond Issue

On May 1, 1964, the Letcher County Public Properties Corporation issued bonds at a 3.5 percent interest rate. As of June 30, 2002, the principal amount outstanding was \$16,000. Future bond payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 560	\$ 8,000
2004	280	8,000
Totals	<u>\$ 840</u>	<u>\$ 16,000</u>

B. 1999 Bond Issue

On January 18, 1999, the Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank their pro rated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirements for the bonds.

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate the AOC to do so.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

B. 1999 Bond Issue (Continued)

As of June 30, 2002, the principal balance remaining was \$4,261,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 202,398	\$ 88,000
2004	198,218	91,000
2005	193,895	97,000
2006	189,288	101,000
2007	184,490	107,000
2008-2012	770,403	624,000
2013-2017	676,400	802,000
2018-2022	465,500	1,029,000
2023-2027	199,513	1,322,000
Totals	<u>\$ 3,080,105</u>	<u>\$ 4,261,000</u>

Note 6. Landfill Closure Costs

KAR 48.310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. As of June 30, 2002, 100 percent of the landfill capacity has been used.

Estimated closure costs range between \$2,000,000 to \$4,000,000. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. However, it is highly probable that Letcher County will not incur this cost, as they are high on the State's list of landfill closures that will be done from money raised through House Bill 174. House Bill 174 transfers the responsibility for closing the landfill to the state. The state will generate funds for landfill closure from the sale of bonds and from the imposed solid waste-tipping fee. According to House Bill 174, the Environmental Cabinet will suspend enforcement activity until July 2006.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



LETCHER COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 5,017,434	\$ 3,603,321	\$ (1,414,113)
Road and Bridge Fund	1,109,361	1,183,978	74,617
Jail Fund	472,569	345,223	(127,346)
Local Government Economic Assistance Fund	3,216,703	1,788,752	(1,427,951)
<u>Special Revenue Fund Type</u>			
Forestry Fund	4,000	3,419	(581)
Senior Citizens Fund	415,485	153,561	(261,924)
Totals	<u>10,235,552</u>	<u>7,078,254</u>	<u>(3,157,298)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 10,235,552
Add: Budgeted Prior Year Surplus	202,175
Less: Other Financing Uses	
Transfers to Public Property	
Corporation Fund	<u>(201,394)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 10,236,333</u>

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SCHEDULE OF OPERATING REVENUE



LETCHER COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,152,999	\$ 1,149,580	\$ 3,419	\$
In Lieu Tax Payments	2,120	2,120		
Excess Fees	34,284	34,284		
Intergovernmental Revenues	4,873,040	4,599,594	145,446	128,000
Charges for Services	829,139	829,139		
Miscellaneous Revenues	235,283	227,489	7,794	
Interest Earned	82,523	79,068	321	3,134
Total Operating Revenue	<u>\$ 7,209,388</u>	<u>\$ 6,921,274</u>	<u>\$ 156,980</u>	<u>\$ 131,134</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



LETCHER COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 693,949	\$ 650,600	\$ 43,349
Protection to Persons and Property	1,047,381	785,356	262,025
General Health and Sanitation	1,185,208	1,097,218	87,990
Social Services	15,200	13,561	1,639
Recreation and Culture	153,500	131,875	21,625
Roads	1,322,930	1,225,068	97,862
Debt Service	68,592	1,620	66,972
Capital Projects	4,143,145	1,342,665	2,800,480
Administration	1,147,743	645,238	502,505
Total Operating Budget - General Fund Type	\$ 9,777,648	\$ 5,893,201	\$ 3,884,447
Other Financing Uses:			
Transfers to Public Property Corporation Fund	201,394	201,394	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 9,979,042</u>	<u>\$ 6,094,595</u>	<u>\$ 3,884,447</u>

LETCHER COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 4,000	\$ 3,642	\$ 358
General Health and Sanitation	32,785	30,712	2,073
Social Services	349,400	341,398	8,002
Administration	72,500	46,482	26,018
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 458,685</u>	<u>\$ 422,234</u>	<u>\$ 36,451</u>

SCHEDULE OF OTHER EXPENDITURES



LETCHER COUNTY  
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Public Properties Corporation 1964 Bond Issue</u>
Miscellaneous	\$ 2
Total	<u>\$ 2</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Letcher County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Review The Administrative Code Annually
- The Fiscal Court Minutes Should Be Filed In A Timely Manner
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Letcher County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Treasurer Should Review Payroll Related Reports
- The Fiscal Court Should Maintain Correct Records

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above conditions to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 25, 2003

## COMMENTS AND RECOMMENDATIONS



LETCHER COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

NONCOMPLIANCES

1. The Fiscal Court Should Review The Administrative Code Annually

We found no evidence that the fiscal court annually reviews the administrative code. Additionally, we were unable to determine when the fiscal court adopted the administrative code. According to KRS 68.005 the fiscal court shall review the county administrative code during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time. We recommend that fiscal court approval of the administrative code be documented in the fiscal court minutes. Furthermore, we recommend that the fiscal court review the administrative code on an annual basis as required by KRS 68.005. The review should be documented in the fiscal court minutes as evidence of fiscal court approval.

*County Judge/Executive Carroll Smith's Response:*

*I agree. We are now reviewing it annually. We reviewed on June 25, 2003 as a result of 2001 audit.*

2. The Fiscal Court Minutes Should Be Filed In A Timely Manner

The fiscal court minutes are not filed in a timely manner. On October 16, 2003, the auditors examined the fiscal court order book and found that the last minutes recorded were for the May 12, 2003, fiscal court meeting. Therefore, the minutes filed in the fiscal court order book were four months behind. Since the minutes are the voice through which the fiscal court speaks and are a matter of public record, they should be filed timely and thoroughly reviewed for accuracy. We recommend that the fiscal court implement procedures to ensure that the minutes are filed timely and are accurate.

*County Judge/Executive Carroll Smith's Response:*

*I agree also. I will talk to county clerk and the person that records the minutes.*

3. The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer

The Jailer did not submit a jail canteen annual report to the county treasurer as required by KRS 441.135. In addition, the jailer did not prepare his monthly reports and ledgers in accordance with the Uniform System of Accounts. We noted the following deficiencies with the monthly reports and ledgers:

- Deposits were not itemized according to source.
- Disbursements were not classified according to expenditure type.

We recommend that the jailer itemize all receipts according to source and classify all disbursements according to expenditure type. In addition, we recommend that the jailer submit an annual settlement of the jail canteen account to the county treasurer as required by KRS 441.135. The annual settlement should be submitted to the treasurer during an official fiscal court meeting and should be documented in the fiscal court minutes.

*County Jailer Gary Cornett's Response:*

*I made the correction during the next year as soon as I was notified of recommendation.*

LETCHER COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

NONCOMPLIANCES (Continued)

4. The Jailer Should Properly Account For Jail Canteen Transactions

The jailer did not properly account for all jail canteen transactions. During our test of jail commissary transactions, we noted the following:

- Prenumbered receipts were not issued for all jail canteen transactions.
- Checks were not issued for all inmate refunds.
- Receipts were not batched to a daily check out sheet on a daily basis.

The Uniform System of Accounts requires that prenumbered receipts be issued for all receipts and that checks be issued for all disbursements. In addition, the Uniform System of Accounts requires that all receipts be batched and deposited daily. Therefore, we recommend that the practice of cash refunds be stopped. All disbursements should be made by check regardless of the dollar amount. In addition, a prenumbered receipt should be issued for all receipts collected regardless of the dollar amount. All receipts should be batched and deposited daily.

*County Jailer Gary Cornett's Response:*

*I made the correction during the next year as soon as I was notified of recommendation.*

REPORTABLE CONDITIONS

1. The County Treasurer Should Review Payroll Related Reports

The county treasurer should review all payroll related reports for accuracy. This includes retirement reports, health insurance billings, Kentucky withholding reports and quarterly 941 reports. The treasurer should examine the written documentation of the reconciliation between the payroll registers and payroll related reports. In addition, the treasurer should review the monthly health insurance billing prior payment of the invoice. Any variances should be investigated and resolved immediately. In an effort to strengthen internal controls over payroll transactions, we recommend that the treasurer implement the recommended practices immediately.

*County Treasurer Phillip Hampton's Response:*

*We will start doing this in December.*

LETCHER COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

REPORTABLE CONDITIONS (Continued)

2. The Fiscal Court Should Maintain Correct Records

The cash balance reflected on the county's financial statement did not agree with the reconciled bank cash balance for the general fund. In addition, prior year surplus for the LGEA fund was not correctly stated on the financial statement. These amounts should agree and any variance should be reconciled. The State Local Finance Officer, under the authority of KRS 68.210 requires the County Treasurer and Finance Officer to keep accurate records and detailed accounts of the financial transactions of the County. We recommend that the county treasurer and the finance officer investigate and reconcile any variances between the book balance and bank balance.

*County Judge/Executive Carroll Smith's Response:*

*I agree. It is my understanding that this situation has been resolved and is balanced.*

PRIOR YEAR FINDINGS

- The Fiscal Court Should Review The Administrative Code Annually
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Review Payroll Related Reports
- The Fiscal Court Should Maintain Correct Records

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2002



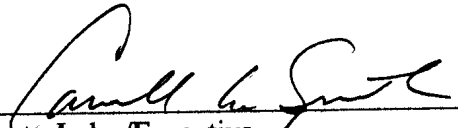
**CERTIFICATION OF COMPLIANCE**

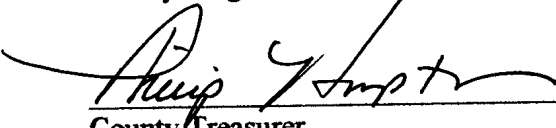
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
County Judge/Executive

  
\_\_\_\_\_  
County Treasurer



